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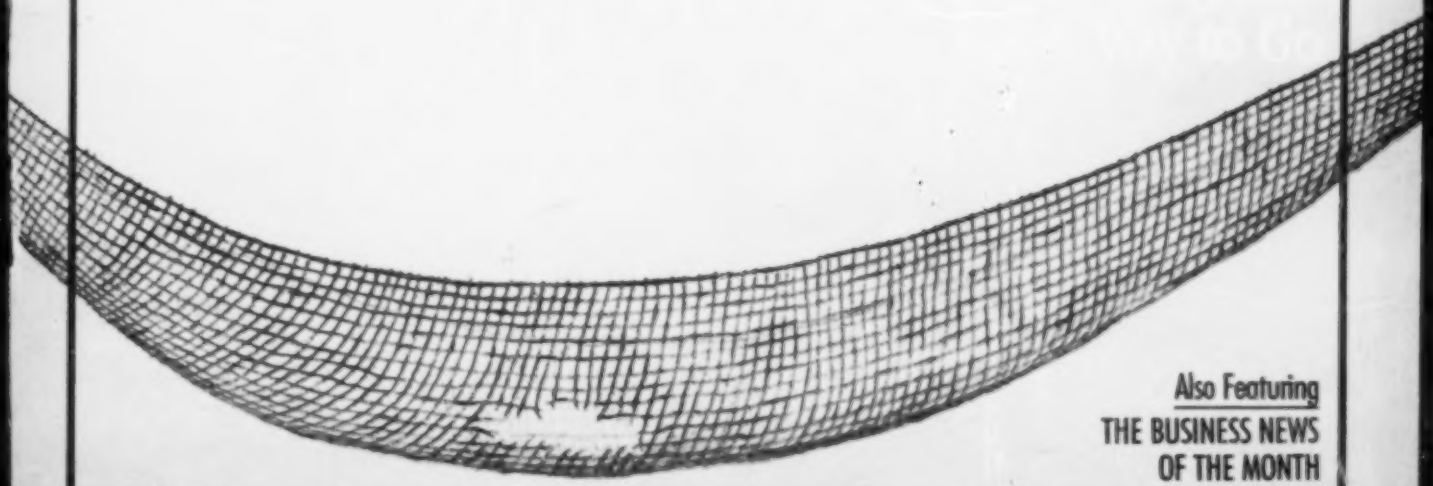

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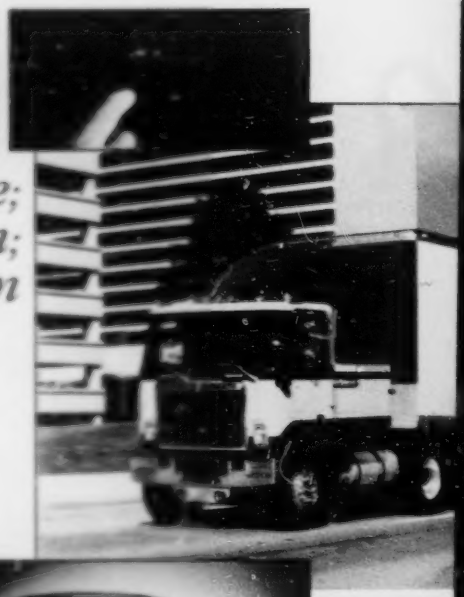

Calm Prevails as Fleet Sales Stabilize; Downsizing Programs Near Completion; Front-Wheel Drive, Mid-Size Models Gain

Since the 1981–82 slump, fleet sales have continued to rebound mightily to reach a more "normal" level of 17%-to-18% of domestic production, and industry sources surveyed see 1986 sales holding firm. "When the economy was soft in '79–81, fleets greatly extended their replacement cycles", says Hal Barton, Chrysler's General Manager of Fleet Operations, "but they came back strong in 1983 with a 10% increase and 1984 with about a 33% gain. We see 1986 as another level year for the industry, with fleet administrators' buys similar to '84 and '85, and no foreseeable dips."

The fleet share of domestic production is even more impressive, considering that auto sales through the end of August 1985 amounted to 5,582,017 units, compared to 5,298,321 for the same period in 1984, according to *Ward's Automotive Reports*. Imports still have little fleet influence, despite lifting of restrictions. In fact, of fleets reporting any imports in their lineups, these amounted to only about 4% of their vehicle totals.

Most fleets have completed downsizing programs and the front-wheel drive mid-size car has become the fleet standard. (However some fleets that may have overreacted to fuel scares and moved abruptly down from full-sized to compacts are now moving back up to mid-size cars.)

Though the price of fuel has stabilized around the $1.20/gallon level, sanity prevails and there's been no stampede to larger, more powerful cars. Requests from the field, yes; acquiescence by fleet administrators, no.

Additionally, the auto makers were still under pressure to keep improving fuel economy (read: 4-cylinder) under the Corporate Average Fuel Economy (CAFE) law, and 6-cylinder engines—the "power" compromise—were in short supply during the past year. As B.G. Willis, Ford's General Fleet, Leasing and Rental Manager affirms, "Fleet administrators are sticking to their guns and 4-cylinder engines; offering more equipment, not more power."

A Runzheimer survey reveals the state of downsizing, noting that there has been some move to sixes from fours, in spite of shortages: 46% of fleet vehicles have 6-cylinder engines (up from 38% in 1983); 37% have 4-cylinders and only 17% have 8-cylinders.

The 1986 fleet car will typically be equipped with power steering, power brakes, automatic transmission, air conditioning, tinted glass and AM/FM radio, plus any extras the manufacturers are including. The latter include turbo-boosted 4-cylinder engines, to make drivers forget—hopefully—all about sixes.

Another accessory fleets are considering—albeit intangible—is the beyond-warranty coverage program, such as Ford's Extended Service Plan (ESP). Its fleet-tailored plan (FSP), now in test, will cover the fleet vehicle from two to four years/30,000–100,000 miles. Drivers receive a credit card to use for repair and maintenance.

According to Joseph A. Kordick, General Manager, Ford Parts & Service Division, "The fleet manager will re-

ceive one monthly statement, detailing dealer charges, and we expect the program to reduce maintenance costs overall because of the centralized control it gives the fleet manager".

As to fleet cars now on the road, the majority of administrators report "improved quality", and while the number of front wheel drive cars in fleets is on the rise, there's been a dramatic decrease in front wheel drive maintenance problems; with only 22% of fleet managers experiencing "excessive or unusual" maintenance, according to Runzheimer's survey. With 1984 median fleet budgets up a mere 2% ($1.58 million) over 1983, all the signs point to stability, and if fleet administrators—and their fleet sales counterparts at the manufacturers—are relaxing a bit lately, who can blame them?

This, the fifth annual Fleet Management Focus Report, explores key areas of fleet management and managers' concerns (fuel cost is no longer the big worry, cost of repairs and maintenance is now first), touches on what's known about the tax situation, reviews 1986 fleet offerings and includes cost-cutting trends in trucking.

1986 Fleet Lineup: Frugality With Flair

This brief rundown of some of the major manufacturers' perceptions and products, vis-a-vis fleet offerings, gives an overview of the '86 fleet marketplace, about which a few general conclusions can be drawn.

As a given, all manufacturers remain firmly committed to fleet sales efforts, in spite of the strong resurgence in retail demand in early '85. Because fleet requirements have historically remained fairly stable, even as consumer sales fluctuate (as in '85, with a summer downturn following the spring upturn). So car makers have obviously come to appreciate the relatively solid base that the fleet business offers (now back to a more normal 17%-to-18% of domestic auto production).

Manufacturers across the board are convinced that the trend toward mid-sized fleet vehicles is continuing and most either have intermediate models ready for '86, or are introducing new intermediate models for '87, to better meet the growing demand.

A 4-cylinder vs. V-6 engine controversy has arisen, with most manufacturers confident that their current fours, particularly those with turbo or other options, can virtually equal the performance of the sixes. Many fleet operators, on the other hand, are insistent on ordering V-6 options with mid-sized vehicles. The strong fleet demand for more powerful sixes has left some manufacturers in short supply, or out altogether. They're more than a bit puzzled by the situation as well, given the unfavorable fleet cost equation between fours and sixes.

A study of that equation was released earlier this year by Peterson, Howell & Heather, the fleet management and leasing company, which found that over a little more than a two year period, a six would cost approximately $541 more to operate than a four. In addition, it noted that a typical six-cylinder option that carried a purchase price of $106 back in '82, now costs $285 and is projected to cost $350 in '86. PH&H pointed out that if the rate of growth that took place in those prices between '82 and '86 continues for four more years, the extra price for a six in 1990 would be $1,155.65!

In any event, the following brief manufacturer profiles will reveal that, with few exceptions, most of the '86 models targeted by car makers for fleet use are carry-over models, with technical and/or cosmetic updates.

Chevrolet

"The Celebrity has become *the* fleet standard," confidently states George Frink, Director of Fleet Sales, Chevrolet.

Apparently a lot of fleet managers agree, because the Chevrolet Celebrity, a front wheel drive intermediate, is the #1 selling fleet car in the U.S. Of the 270,000 Chevrolets that found their way into fleet applications this year, over 100,000 of them were Celebrities.

On spotter's Frank: "It's not pushy calling our Celebrity the 'perfect fleet car'"

There probably would have been even more, but fleet orders for '85 Celebrities with optional V-6 engines outstripped supply.

Frink believes that the '85 rush for V-6s occurred because " . . . since gas at $1.20 a gallon is a marketplace reality, there's an increasingly strong demand for higher performance engines. There's still some resistance to 4-cylinder engines, but I think it's just a problem of perception. The four has proven to be an excellent performer, and we're now providing a 'EuroSport' package with the fours as a fleet incentive."

For '86, Frink explains: "What the fleet administrator has to weigh is the extra cost of the six, about $300; not getting the 'EuroSport' package and spending more for fuel; that versus the higher resale value for the 6-cylinder."

Chevrolet's second best-selling fleet

Chevrolet's mid-size Celebrity

model is the Cavalier, a front wheel drive compact, followed by the full-size Caprice. The elimination of the X-body Citation has created a bit of a void in the compact area. A new intermediate, the "L body," will be introduced in '88–'89, to compete with Ford's new Taurus.

The Astrovan, Chevy's entry in the fast-growing mini-van category, is already causing considerable fleet excitement. Confirms Frink, "The Astrovan is just going great. Its key advantage is that it was first designed as a *commercial* vehicle, then adapted to

passenger use. It has the guts to go."

Buick

"About 16% of Buick production normally goes to fleets, but we dipped slightly to 140,000 in '85, primarily due to lack of X-body Skylarks. However, we expect to be back up in '86, with the introduction of the front wheel drive LeSabre," says George B. Shane,

Buick's Director of Distribution & Fleet.

Shane explains that Buick has invested more than $300 million in "Buick City," a brand new plant being built inside an older facility in Flint. But Buick isn't limiting its expectations to the LeSabre, which should be in fleets by spring '86, as production increases.

Other models that Shane expects to win '86 fleet approval include the 4-door, front wheel drive version of the compact Somerset Regal that will carry the famed "Skylark" name. The original Skylark, an X-body compact that saw wide fleet use has been phased out, but Buick believes that the new version Skylark will prove to be just as popular.

The Century 4-door intermediate with 4-cylinder engine is now the number one car in resale value nationwide, a fact that Shane is convinced will add even more to its appeal for fleet administrators in '86. Shane points out that another intermediate, the 2-door, rear wheel drive Regal has been finding its way into fleets as an "incentive" car. For '86, the Regal will feature a new V-8 option.

In the executive application category, Buick's entries are the front wheel drive, 2-door Electra/Park Avenue and Riviera models, the latter featuring a new electronic graphics display console. (Yes, just like an airplane's.) Shane comments that the Riviera has found wide acceptance as a daily rental fleet car. As proof of its popularity, Shane points out that the Riviera is the most *stolen* car in America!

Buick Skylark Limited

Oldsmobile

"Oldsmobile's message of quality and proven resale value is understood and getting through to fleet administrators," says R.E. Pasche, Manager, Oldsmobile Fleet Sales Administration, who projects sales of some 200,000 fleet units for 1986—a *very* good year, indeed.

Oldsmobile Cutlass Supreme

If the fleet sales of Oldsmobile's Cutlass Supreme and Cutlass Ciera are any indication, fleet administrators are indeed responding to the message of Oldsmobile's excellent life-cycle value. Fleet demand for those two intermediates actually outran availability in '85.

Oldsmobile feels that in addition to historically high resale value, its inherent quality image also contributes to its consistently strong driver appeal. As Pasche explains: "Companies have been upgrading to Oldsmobile for employee morale. Tupperware, for instance, has 6,000 Cutlass wagons.

For '86, Oldsmobile plans only cosmetic changes on its fleet-favorite Cutlass models, with a new, restyled Ciera coupe expected to push Ciera ahead of Supreme in fleet applications.

A new 4-door, sedan version of the "world-class" (somewhat larger than compact) size Calais—already on major leasing company selector lists—will be introduced for '86. Oldsmobile expects it to create a great deal of fleet excitement. Another hot fleet prospect for '86, according to Olds, will be the Toronado. Although not a new entrant, the Toronado has been completely revamped for '86, with new high-tech electronics and styling.

A new front wheel drive version of the fleet-popular Delta 88 full-size, and a new notchback coupe version of the Firenza compact will also appear in Oldsmobile's formidable fleet lineup.

Pontiac

Pontiac is now a major player in the fleet marketplace, having seen its fleet placements grow by some 56% in only two years. Much of that growth can be attributed to Pontiac's *very* successful 6000, a front wheel drive intermediate. Other key contributors to Pontiac's recent fleet growth are the Bonneville intermediate and the Sunbird compact. For '86, those models will offer a variety of technological and design changes.

The full-size Parisienne sedan and 8-passenger wagon, also popular among fleets, are unchanged for '86, as is the sports/specialty Firebird, which has seen considerable use in executive and perk applications.

Entirely new for '86 is a 4-door sedan version of the compact Grand Am, which excited fleet interest when introduced as a coupe last year.

Cadillac

It wasn't until recent years that Cadillac gained regard as a serious fleet contender. Continued downsizing of Cadillac models, combined with a more youthful, "European" design and engineering philosophy, as well as an ongoing commitment to fuel economy, has made Cadillac a prime contender for executive fleet applications.

There was a slight falloff in "executive" placements in '85, as a result of new IRS regulations concerning business usage and depreciation. Nevertheless, Cadillac sees '86 as a growth year for its fleet business and feels that some of that growth will come from increases in "incentive" applications.

Cadillac positions its '86 models in direct competition with the high-end

imports. Cadillac's new offerings include the compact Cimarron, featuring fresh styling and a new V-6 engine with a five speed manual transmission; a newly downsized Eldorado 2-door coupe and Seville 4-door sedan, and the full-sized Fleetwood Brougham.

Chrysler

"We've proven ourselves a viable fleet market source, are extremely pleased with the way fleet administrators have accepted our vehicles across the board and are totally optimistic for 1986." That's the upbeat assessment of Hal Barton, General Manager, Chrysler Fleet Operations.

Barton explains his optimism: "We've

Chrysler's stylish LeBaron

demonstrated the quality of our products and the increases in our fleet sales clearly tell us that the people who tried us early on were pleased. In fact, from '81 to the end of '84, we *doubled* our fleet penetration."

To keep its momentum, Chrysler got a head start this year by announcing its '86 fleet programs at NAFA's annual meeting in June of this year and by showing videotapes of its '86 models at regional meetings as early as April.

For '86, the compact "K" cars, the Dodge Aires and Plymouth Reliant should continue to be the mainstays of Chrysler fleet sales. Three other fleet-popular models, the intermediate Chrysler LeBaron GTS, Plymouth Caravelle and Dodge Lancer will again be offered. What's new for '86 is a 2.5 liter 4-cylinder engine, which joins the turbocharged 4-cylinder introduced in '84, as optional alternatives to the standard 2.2 liter four. These more powerful fours are expected to attract fleet customers Chrylser might otherwise lose to V-6s.

The Dodge Caravan and Plymouth Voyager minivans are expected to continue to draw great fleet interest in '86. But in spite of expanded production capacity, Barton warns that they will remain in very limited supply to fleets for '86, due to ongoing consumer demand. He concludes, with justified optimism, "We have all the vital ingredients; products, people and programs, and are off to our fastest fleet start ever. We hit 50,000 orders by July, and had more fleet allocation from August and September production than we used in four months last year!"

Ford

"Selection of a fleet vehicle is not an emotional one. It's based on cost getting in, holding cost and cost out. Fleet administrators have weighed the data and shown by their actions that we [Ford] show up extremely well. So we expect '86 fleet sales to hold roughly the same as '85." That's the assessment of B.G. Willis Ford Division General Fleet, Leasing and Rental Manager.

To back his claim that fleet administrators recognize Ford's cost advantages, Willis cites the fact that Ford devotes 28% of its car production and 30% of its light truck production to fleets, as compared with an industry average of only 17%.

Says Willis, "Our 'Red Carpet' Leasing Program has grown substantially as car prices have risen. People are willing to pay for the vehicle's use and are no longer overly concerned about ownership." Bottom line considerations will continue to influence fleet vehicle choices in '86, as Willis points out: "There's been a small move by fleets to larger cars, but most fleet administrators are sticking to their guns and 4-cylinder vehicles.

One of the most popular 4-cylinder fleet vehicles has been the compact Tempo, which is Ford's best selling fleet model. For '86, the Tempo will feature a new aerodynamic front end, larger tires and an improved suspension. The subcompact Escort, also very popular with fleets, will offer new front end aerodynamics, increased power and better fuel efficiency.

Ford's second most popular fleet car, the intermediate LTD, will again be offered for '86, although production will probably be permanently phased out early in the year. The full-size Crown Victoria will again be available in '86, as

Ford's wedge-shaped Taurus

will the sports/speciality EXP, which had been dropped from Ford's '85 lineup. The EXP, a 3-door hatchback, should generate interest for executive and perk applications.

But Ford expects the greatest '86 fleet excitement to be generated by a brand new model—the Taurus. It's a front wheel drive intermediate that features an extremely aerodynamic body design. The Taurus will be available as a 4-door and a wagon (with the lowest drag co-efficient of any wagon on the market) and is expected to win strong fleet acceptance, ultimately displacing the LTD in fleet popularity. Based on early fleet response, Taurus' only immediate problem will be availability.

The Aerostar, Ford's new minivan with a front engine, rear wheel drive powertrain, is also expected to produce considerable interest among commercial and service fleet operators for '86.

Lincoln-Mercury

"Mid-size is where the fleet market is going and with GM's X-car compacts gone, the choice of compacts has been depleted. That's helped drive fleet business to mid-sized cars, and our new Sable will help drive even more people into mid-size." That's the '86 fleet situation, as seen by John Rowley, Lincoln-Mercury Division's Major Leasing and Fleet Accounts Manager.

The move to mid-size suits Lincoln-Mercury just fine. Two of their best selling fleet models are intermediates, with a brand new intermediate—the Sable—

Mercury's all-new Sable

ready for '86. Rowley believes that the company's mid-size strength, combined with excellent life-cycle cost (". . . a decided advantage . . .") and excellent customer service (". . . the best in the industry") will help Lincoln-Mercury maintain record fleet sales—projected at 180,000 units for '86.

The Mercury Sable will be available as both a sedan and a wagon, featuring radical aerodynamic styling, a 3-liter V-6, with 140 horsepower, spacious cargo and passenger areas and numerous high-tech operational, safety and comfort refinements. The product development cost of the Sable (and its Ford cousin, the Taurus) has thus far amounted to some $3 billion, but Rowley feels it was definitely worth it.

Rowley predicts a tremendous fleet response to the Sable, with special appeal for younger, professional sales-level fleet drivers ("an upscale car for upscale drivers.") But since the consumer response is also expected to be great, the Sable's fleet availability may be somewhat limited in '86.

The intermediate Marquis, Mercury's former fleet leader, will be permanently phased out during the '86 production cycle, so availability here will also be limited. However, Rowley points out that Sable supply should catch up with the expected demand, once a second plant is on-stream during the first quarter of 1986.

The sports/special Mercury Cougar intermediate will again be offered in '86 and should continue to prove popular for the growing number of applications where perk and driver morale are important as well as rentals. The fleet-popular Mercury Topaz compact will feature a new front end, new engine and a new 4-wheel drive option for '86, while the Lynx sub-compact holds its own for special fleet applications, such as public utilities.

American Motors

"With the fleet market's shift to larger cars, the sub-compact segment is shrinking. Since sub-compacts are our principle product, it's going to be very difficult for us to increase fleet volume until our new mid-size cars are ready." That's the frank appraisal of AMC's '86 fleet situation by Martin R. Levine, Director, AMC Sales Operations. (For the record, industry sub-compact sales were holding at about 20%, but in recent months have dropped to 15%.)

AMC significantly penetrated the fleet market with its sub-compact Alliance and Encore and while Alliance/Encore sales to rental fleets will probably remain strong, it's with their 4wd drive Jeep Cherokee and Wagoneer that AMC hopes to hang on to the rest of the fleet market. The Cherokee and Wagoneer have proven popular in snow-belt applications, where 4wd is a definite advantage. (The Cherokee, which has won 4wd off-road honors, is also available in 2-wheel drive.)

A key financial advantage of AMC's top-of-the-line Wagoneer is escaping IRS limits on investment tax credits and depreciation. (See Taxing Time, p 30.)

A new '86 entry in the light truck category, the Jeep Comanche, should also help AMC keep its hand in the fleet business. This pickup features a choice of two or four wheel drive, with the 4wd offering a "shift-on-the-fly" (between 2wd and 4wd) capability.

Presuming AMC can keep its fleet presence alive in '86, it should fare much better in '87, when a new mid-size (currently code-named "X-58") and compact ("X-48") will be introduced, allowing AMC to finally compete in those important size categories. "The new models will make '87 our renaissance year," says Levine, "especially in our fleet business."

Fuel-injected Jeep Comanche

Continues Levine, "In 1979, we did

Selected 1986 Projected Ownership and Operating Costs

Make[1]	Model	Doors	Front Seat Head Room	Front Seat Leg Room	Luggage Capacity	Weight	Overall Length	Drive Unit	Cyl	Displace	Annual Costs[2] For 20,000 Miles Operating	Ownership	Total
					(Cu. Ft.)	(Lbs.)				(Liters)			
Cadillac	Deville	4	39.3"	42.4"	15.7	3378.5	195.0"	FWD	8	4.1	$1,750	$4,958	$6,708
Chevrolet	Caprice CL	4	39.2	42.2	20.9	3659	212.8	RWD	8	5.0	$1,740	$3,445	$5,185
Oldsmobile	Cutlass SP	4	38.7	42.8	15.2	3233	200.4	RWD	6	3.8	$1,570	$3,272	$4,842
Dodge	Caravan	4	38.9	38.3	48.4	2700	175.9	FWD	4	2.2	$1,530	$3,304	$4,834
Ford	LTD	4	38.7	41.9	15.1	3001	196.5	RWD	6	3.8	$1,570	$3,256	$4,826
Chevrolet	Celebrity	4	38.6	42.1	16.2	2824	188.3	FWD	6	2.8	$1,480	$3,150	$4,630
Plymouth	Reliant K	4	38.6	42.2	15.0	2402	178.6	FWD	4	2.2	$1,320	$2,953	$4,273
Ford	Tempo GL	4	37.5	41.5	12.9	2398	176.2	FWD	4	2.3	$1,250	$2,983	$4,233
Chevrolet	Cavalier	4	38.6	42.2	13.6	2342	174.3	FWD	4	2.0	$1,280	$2,923	$4,203
Ford	Escort L	4	38.1	41.5	17.0	2159	166.9	FWD	4	1.9	$1,230	$2,810	$4,040

Footnotes:
1) All cars similarly equipped including automatic transmission, power steering, power disc brakes, air conditioning, tinted glass, AM-FM radio (stereo when radio not available), body side moldings, cruise control and left-hand remote control mirror.
2) Costs include operating expenses (fuel, oil, maintenance and tires), ownership expenses (insurance, depreciation, financing, taxes and license) and are based on a 3-year/60,000 mile retention cycle.

Source: Runzheimer & Co.

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less than 1,000 fleet vehicles, whereas 40,000 units went to fleets in '84. So we *have* come a long way and expect '85 and '86 to be about the same."

Nissan

Like other Japanese manufacturers, Nissan has been hampered in its fleet activity by the import restrictions and has relied on its light trucks to keep a presence in the U.S. fleet market.

Spearheading Nissan's '86 effort to rebuild fleet placements will be a new minivan, to be known as the Stanza Wagon. It features a unique dual sliding door arrangement, which uses no door posts separating the side door from the front doors, aerodynamic styling, front wheel drive and 80 cubic ft. of cargo space. A five speed manual and an automatic transmission are available.

Toyota

Partially as a result of the import restrictions of the last two model years, most of Toyota's fleet placements have been in the light truck category. For '86, Toyota is offering a new 137 inch, dual rear wheel drive cab/chassis. The standard 112 inch cab will still be offered, available with either single or double rear wheels. It's common for fleets or independent converters to buy Toyota's cab/chassis models and add the appropriate truck body themselves.

On the auto side, a potential fleet/rental entry for '86 is the aerodynamically redesigned Celica sub-compact.

Volkswagen

"We feel our 1986 model lineup is on the cutting edge of technology. All Volkswagen car lines . . . include front wheel drive, fuel injection and 4-wheel independent suspension. No other manufacturer in the U.S. can make that statement." That's the proud assertion of Dick Dennis, Fleet Sales Operations Manager of Volkswagen/Audi.

According to Dennis, that technology has helped make Volkswagen products "just right" for today's fleet market, resulting in fleet sales that almost tripled from '82 to '84, with '85 sales strongly ahead of '84's.

Volkswagen of America's strong confidence in its engineering and product quality is reflected in its warranty program. As Dennis explains: "Our warranty is about the best in the market: a 2-year unlimited mileage protection plan on everything except tires—maintenance and custom work excluded—and covering all our models."

Volkswagen's best selling fleet model is the Golf (from the German "golfstrom", meaning gulfstream), a sub-compact. The compact Jetta is the

Volkswagen's jaunty Jetta

next most popular model, although fleet availability has been somewhat limited by strong consumer demand and the fact that it's manufactured overseas. (The Golf is manufactured in the U.S.). The slightly larger Quantum has yet to find significant fleet penetration, except to a limited degree as rentals, while the Vanagon minivan has entered some service fleets.

Volkswagen will pursue a policy of "comparative ride 'n drive" marketing in '86, feeling confidently that once a potential customer has experienced the VW's handling and performance, a fleet sale will more likely be closed. According to Dennis, this approach should prove particularly useful in gaining serious consideration for somewhat higher-end applications for the Quantum, which is still largely unknown among fleet operators.

Volkswagen admits that the trend toward mid-sized fleet cars has hampered its ability to further penetrate the fleet market and is currently working on a possible mid-size model for future introduction. In the meantime, there will be no major design or technological changes on the '86 model lineup.

As noted earlier, the preceding contains only a brief summary of the 1986 fleet offerings from major manufacturers. For more detailed information, including complete specifications, equipment and fleet package listings, please refer to the various fleet guides offered in the *Information, Please* section on page 40, and on the Reader Service Card, pages 17–18. —T.R.

Fleets Face Taxing Times

Aside from the fuel crises of the past, nothing in recent memory has served to shake up fleet administrators more than the contemporaneous recordkeeping provision of the Deficit Reduction Act of 1984. It called for drivers to keep daily running logs, including time and mileage, and companies were to certify to the IRS that such records were being kept. It was sheer madness, (as any manager who ever tried to get an accurate field sales call report in on time realized), and a veritable rebellion ensued.

Fortunately, the cries of outrage and calls for common sense reached the lawmakers, and as of April 2, 1985, the requirement to keep contemporaneous records for travel expenses was eliminated and pre-1984 rules reinstated. But over the fleet managers' collective sigh of relief could be neard the IRS' stern reminder, in the words of one James Fields, Office of Chief Counsel, IRS: "Starting in 1986, adequate records or other corroborative evidence will be required. Monthly or weekly expense sheets should be sufficient, if they include mileage data".

After all the battling and in-fighting, the net effect of the rebellion is that business mileage no longer has to be recorded on-the-spot, but drivers must continue to keep accurate records of business and personal use.

IRS Rules of the Road

As you read this summary, the IRS should have published (by October 1, 1985) new rules covering business auto personal use, fringe benefit value, luxury autos and recordkeeping. While fleets scored somewhat of a victory with the new law, bureaucratically titled, "Repealing Contemporaneous Recordkeeping Requirements Added by the Tax Reform Act of 1984" (H.R.1869), they lost on investment tax credit (ITC) and depreciation.

The new law reduced limitations on ITC and depreciation under the Accelerated Cost Recovery System (ACRS) for "luxury" cars. Now, provided the 50% business use test is met, the available ITC has been lowered from $1,000 to $675 (making the vehicle price "cap" just $11,250).

On the other hand, ACRS provisions apply to a vehicle with a maximum price of $12,800 (total 3-year depreciation), as opposed to the previous ceiling of $16,000. (Interestingly, AMC's top-of-the-line *Wagoneer* is priced well above the caps, but avoids the new limits because it weighs 6,025 pounds, while the regulation defines "passenger automobile" as one weighing 6,000 pounds or less. Therefore, owners of *Wagoneers* used for business get—for now, at least—the full ITC and 3-year accelerated depreciation.) But you can forget all the foregoing if the President's proposed tax reform goes into effect.

AMC's top-of-the-line Wagoneer steers clear of ITC depreciation restrictions (for now)

Tax Reform Package

Under the proposed tax reform package, the ITC would be eliminated and ACRS would be replaced by CCRS (Capital Cost Recovery System). Under CCRS, company cars will have a 5-year depreciation term. However, the IRS' Fields pointed out at the National Association of Fleet Administrators annual conference that CCRS will allow up to 80% write-off in the first two years, compared with 63% under ACRS. But the exact first year's recovery percentage will depend on when the vehicle is placed into service. Also, according to Fields, an inflation component, issued annually by the Treasury Department, will serve to adjust the depreciation base in high inflation years, allowing greater write-offs for fleets. Finally, capital gains will not be allowed on the sale of depreciable property.

Runzheimer & Co., whose staff has carefully tracked the proposal's progress, cautions that "calculation of a recovery deduction under CCRS will be *far* more complex than under ACRS".

The consensus: CCRS is well on its way to becoming yet another potential administrative nightmare, and a costly one at that. Should the proposal become law, Runzheimer recommends reviewing the cost-effectiveness of selected vehicle replacement schedules in light of CCRS; conduct cash flow analyses to re-examine the type of vehicle acquisition; and, if leasing, contact lessors *now* to determine projected effects of the law—including IRS inflation adjustments—on both parties.

As this Focus Report went to press, the tax reform package is a *proposal* only, still subject to continual outside pressures and internal shifting. It's final form is anyone's guess, but certainly it will have a bottom line effect on fleets who own or lease vehicles and some smaller, heaviiy leveraged lessors, who depend on ITC, may not survive. Whatever the outcome, personal use of company cars is considered income and must be reported as such. (However, companies now have the option of *not* withholding and reporting for income tax purposes an amount based on the fringe benefit value of the car. Under the option a company reports taxable amount of "fair market value of the personal use benefit" in the employees' W-2 form, after duly notifying employees. FICA taxes on the amount will still be withheld by pay period, quarterly, semi-annually or annually.) Of course, none of this applies to driver-owned fleets, wherein the company simply reimburses the driver for business miles.

For the majority of companies—who own, lease or operate with a combination of the two—it's time for contingency planning and some serious bean counting, based on worst-case scenarios. And don't forget plenty of aspirin for your about-to-be-beseiged fleet administrator. —J.F.C.

Editor's Note: The complete Runzheimer special report, "From Recordkeeping to Tax Reform", including the October 1, 1985 Treasury Department ruling summary, is available at $7.50 per copy, postage included. Write to: Runzheimer International, 555 Skokie Blvd., Suite 245, Northbrook, IL 60062.

Lessors' Advantage: Extra Services

The fleet leasing market continues to grow at a steady, albeit slow rate. Since there's little differentiation as far as the basic types of leases offered, leasing companies are competing even more aggressively in the marketplace by offering more and more ancillary services. (Runzheimer's 1985–'86 Survey of Business Car costs reveals that the most popular lease form is still, by far, finance or capital (open-end) with 70% of the mentions, followed by net lease (closed-end) at 17% and full maintenance (closed-end) at 11%. In addition, 20% of the companies surveyed leased exclusively, while 54% had "some" leased vehicles in their fleets.)

In any event, the leading lessors routinely provide "value-added" services and high-quality systems, at profitable levels to meet real needs. (At a fee, of course.) These services include various computerized expense reporting systems and maintenance data control programs, marketed under such catchy names as Gelco Fleet & Management Service's "GelcoLink," McCullagh's "SAVE II," and Wheels, Inc.'s, "WIN System."

According to McCullagh Leasing President, James A. Culotta, "As corporations are taking extra measures to cut operational costs and trim budgets, there is extra pressure on fleet managers and financial officers to closely account for their vehicle fleets. The trend is clearly toward data systems that assist fleet managers in streamlining costs and keeping track of the maintenance of their fleet vehicles."

Called SAVE II, McCullagh's computerized reporting system monitors costs for each vehicle in the fleet on a monthly basis and provides an early warning signal for potential vehicle problems.

When asked about the current leasing trends, Jim Frank, President of Wheels, Inc., comments: "In the late '70's, companies were concerned about how they would cope with problems such as car availability, gasoline prices and EPA requirements. Because of today's cost squeeze, the emphasis is on controlling operation costs and fleet productivity." (Interestingly, Runzheimer's survey shows only 2% of fleet managers concerned about gas cost, while 28% cast their "worry-most" vote for maintenance and repair cost.)

Says Frank, "Companies are not looking to hire additional staff to handle the growing administrative work burdens, but instead are turning to leasing companies to assist in this area."

Maintenance management, as Frank points out, is one of the areas in which Wheels has experienced major growth. Its Maintenance Management System, appropriately named the "WIN System" (Wheels Information Network), assists the fleet manager in getting cars fixed, negotiating repair costs, registering, licensing, and disposing of vehicles.

Walter L. Lovenduscki, Vice President and General Manager of Hertz Car Leasing, notes that although the leasing industry as a whole continues to grow at a slow rate, the largest segment of the market, in terms of fleet size (100 vehicles or more), has been relatively "flat." The smaller segment (under 100 vehicles) is where there has been substantial growth. The reason, he believes, is that smaller businesses can find some value added to the equation by choosing the right leasing company. "The smaller fleet people, he says, really don't have the resources, the manpower or the overhead to efficiently manage their fleet of vehicles. When they look at the leasing equation, particularly value-added leasing, they find that they can alleviate a lot of their own internal headaches, reduce some of their overhead, and let somebody else manage the fleet for them."

Peterson, Howell & Heather, Inc., prides itself on being a full-service fleet leasing and management company—as do the other large lessors. In addition to consulting and making recommendations, they assist corporations in the area of financing. "Helping corporations with tax, accounting, and cash flow analysis has called for a much more sophisticated approach to financing," states Donna Startzel, director of sales/service support, at PH&H, "We offer a 'financial array' of leasing alternatives that appeal to a lot of different company needs."

Buick's new computerized diagnostic system

Like other lessors' *modus operandi*, PH&H places car orders on behalf of its clients, helps them with the specifications and delivery arrangements, and provides a wide range of cost control services; in particular, its maintenance control program.

This fall, PH&H is introducing a micro-based computer system called "Fleetline." Says Startzel, "This will give our clients the opportunity to perform quality analyses with their own data on a PC. It lets them be in control on a day-to-day basis in their own office."

ITC Threat

If the Investment Tax Credit is dropped, what, if any, effect will it have on the leasing market?

According to Al Cavalli, Manager of Sales and Services, Avis Car Leasing, it will have an initial impact, but no long term effect. The simple reason, he says, is due to lack of information. "This has led to confusion within the fleet industry, with some fleet managers postponing new car orders and holding the cars for a longer period of time waiting for the 'second shoe to fall.'" Cavalli feels that once the new laws are firm, then the vast majority of fleets will "return to business as usual. The reasons and methods companies used for fleet acquisition in the past will stay the same."

Commenting on the potential removal of the ITC, Hertz's Lovenduscki says, "All it will do is move the pricing a notch higher. Since there was obviously an ITC appetite by the leasing company or the lessee in the past, the ITC removal will force people to take a harder look at pricing."

Chuck Lounsbury, Vice President, Marketing, at Leaseway, Inc., shrugs off pending legislation, saying: "Whether ITC remains or not, compa-

nies will always look to leasing as an alternate acquisition means when they want to free up capital. In many cases, the overall cost of leasing can be lower than ownership, primarily due to more effective buying and selling."

Like its competitors, the Cleveland-based firm takes a "menu approach" to ancillary services. Explains Lounsbury, "If a firm decides that tax considerations call for ownership of its fleet, that's fine with us, since we can offer our PAD Program (Purchase, Administration, Disposal). We like to get in on the ground floor to map out strategy with the Fleet Administrator, assess the company's car and truck transportation needs, recommend and purchase vehicles, make sure they're maintained properly for the highest residual value and dispose of them intelligently."

Rounding out its full service spectrum, Leaseway has instituted a Road Assist Center, staffed 24 hours a day by certified mechanics. A driver in trouble simply calls in, explains the problem, and the mechanic on duty will select a repair facility, negotiate a fair price, ensure the job is done properly and handle all billing and paperwork. Says Lounsbury, "It's an easy way for a fleet administrator to keep his drivers happy and better control repair costs."

Many services offered by the leasing companies are undoubtedly effective tools to help a fleet administration control costs, better the bottom line and keep top management happy. But, what's important to keep in mind is that the professional fleet manager will always make the final decisions—with the blessing of his company's top financial people, of course—and not become overly dependent on any leasing company. —L.W.

Truck Comeback Continues Strong

After posting record 173,000 Class 8 (heavy duty) unit sales in 1979, the industry reached new lows in 1981–83, as companies developed "wait and see" attitudes, retaining older equipment or taking trucks out of service.

"Medium and heavy duty truck sales are driven by the manufacturing sector and its need for raw materials to be shipped in and finished products to be shipped out; it's that simple", says John D. Rock, GMC's Truck and Bus Group Manager. When the economy began to

GMC's Rock: The jobs are getting done by fewer trucks because they're built better, perform better, and last longer.

reverse its course, so did GMC, doubling its heavy truck sales in 1984. While 1985 will show a slight fall-off, sales are still acceptable compared to 1983's doldrums, and "will hold steady for 1986," Rock predicts.

Likewise, the folks at Ford Heavy Truck Operations are much happier. As Operations Manager Kenneth F. Smith reports: "It was the line-haul carriers coming back with orders after a prolonged absence that made the difference. Our new orders peaked in the first quarter of 1984, and while the flow of 1985 orders has diminished slightly, we expect to go back up to the 1984 level next year. Our order book looks solid and despite a Class 8 softening, we're very optimistic and see a stable industry situation for next year."

Says GMC's Rock, "I don't see us getting back to the 1979 levels, even though economic conditions continue to improve. The jobs out there are getting done with fewer trucks, because they're built better, perform better, and—if they're treated right—last longer. And the refinements and improvements are going to continue because there are more competitors in the marketplace and more capacity than sales."

The direct beneficiary of all this competitive edge sharpening will be the fleet operators, of course; *when* they finally decide to replace equipment. As Ford's Smith points out, "The total fleet marketplace is still aging (up around a seven years on average right now) which has to mean increased maintenance costs. We think the time to buy is *now*, especially while the ITC is still in effect and interest rates are generally favorable."

Off-the-Shelf Savings

Buying a $60,000 tractor has never been a simple matter and, understandably, a mysterious process to any executive not involved in the fleet day-to-day management/maintenance.

GMC's solution is to provide, in a sense, "off-the-shelf" units, pre-speced for a particular application, *i.e.* long-haul tractor, in-town delivery vehicle, short-haul cement carrier. Called "CP Specs" (for customer proven), the program has been well accepted by customers and enables GMC to better plan and fill production cycles.

Explains Rock: "We listen to our users in different vocations and they tell us what specs do their jobs best. We then can build vehicles in groups with reasonably the same components. I'm not talking about 'standard' specs, but rather the *right* specs, based on hard facts and the task to be performed."

Ford's Smith: Our order book looks solid and we're very optimistic for 1985.

As might be expected, rival Ford has a similar plan called, appropriately, "Vocational Sales Program" (VSP). Says Ford's Smith, "We started our program with medium trucks and now have gone to Class 8. The buyers get faster delivery and since we're writing up specs based on our experience in a particular application, we are now offering extended warranty protection under the VSP program."

As things stand, the various truck

makers have reams of data on virtually every possible application, so "off-the-shelf" or nearly so would appear to be a viable cost-cutting measure. Though undoubtedly some fleet managers will still insist on having a hand in "building" their trucks to their own—sometimes exotic and often not cost-effective—specifications. (Which is where financial management should be looking closely and asking, "Do we really need to have our trucks custom speced? Are our tasks all that different? Or does Ford—or GMC, or Peterbuilt, or anyone *really* have a better way?")

Driving Down Costs

Not surprisingly, the micro-computer has emerged as the primary tool in controlling the sometimes runaway truck operating costs. Used in combination with an on-board trip recorder (which records such data as mileage, time, rpm, etc.), its effect can be doubly significant. Retaining and interpreting fleet data is not new by any means. However, we've now reached a level where it finally has become manageable *and* useful. (Bear in mind the computer caution, "Garbage in, garbage out".)

GMC's 1986 Astro improves fuel efficiency with its new air fairing package

Pat Patterson, President of Winston-Salem based Transportation Management Techniques, a software/operational specialist, sees the computer as an early warning system for truck fleet operators. He says, "The whole key to the computer is its unmatched ability to generate up-to-the-minute data that will indicate quickly where corrective action is necessary. The computer can instantly review the vehicle's repair history, allow better diagnosis of a problem, give direction to the mechanics, and improve shop productivity by 25% or more. For the first time, we're able to correlate failed parts to actual operation of the vehicles and isolate the cause, working with historical data from the computer and trip recorder."

Trip recorders, after a slow start, recently have gained more fleet acceptance and several models are now available from such manufacturers as Rockwell, with its *Tripmaster*, TRW, Cummins-Cadec and Stemco-Engler. In addition, a number of software packages to help keep tabs on and interpret running costs (maintenance, parts, fuel, tires) have entered the market, including TMT's *Transman*.

Patterson claims the program pays for itself in about three months and, if used properly, can lead to a 30% cost reduction over three years.

As truck and component manufacturers move toward life cycle cost guaranties and cost-per-mile warranties, they're going to be taking a much more active part in their customers' trucking operations. Says TMT's Patterson, "The whole idea is to get both parties working as a team to reduce cost-per-mile and meet guarantees. It will enable fleets to buy quality products at a stipulated cost-per-mile, rather than on the basis of initial price. Once parties are in agreement as to the warranty's scope, the manufacturers should have the right to come in and analyze the fleet department's data to be sure the trucks are set up properly for the job, driven correctly, and maintained to the makers's standards. It has to be a two-way street."

According to Patterson, an average of more than 12% of all fleet vehicles are "down" at any given time. "Cut that", he says, "and you'll find you can do the same work with fewer vehicles."

Management Tips

This is directly related to the fact that the average shop ends up having 40%-to-60% of its capacity tied up in *unscheduled* maintenance compared to an objective of 80% *scheduled* (preventive) maintenance.

He suggests that management pay close attention to and/or implement the following:

- Vehicle down time
- Scheduled maintenance (%)
- Unscheduled maintenance (%)
- Shop time vs. labor time
- Driver training
- Dedicated computer/software
- Trip recorder installation

As Patterson concludes, "The manufacturers have done a great job all around, and there's been more product improvements in the past ten years than in all the previous years combined. Now its up to the fleet operator to be willing to invest in the best equipment going in, negotiate a mutually fair guarantee based on life cycle cost or cost-per-mile, work closely with the manufacturer to achieve it, and sharpen fleet management methods. Always remember that the initial cost of a piece of equipment is only 15%-to-20% of the total cost over its lifetime."

In summary, with accurate input and the computer's ability to crunch numbers, you can predict operating costs, increase utilization and reduce running costs. And with cost-per-mile guarantees on the line, you'll find the manufacturers willing to help. —J.F.C.

Truck Leasing Benefits

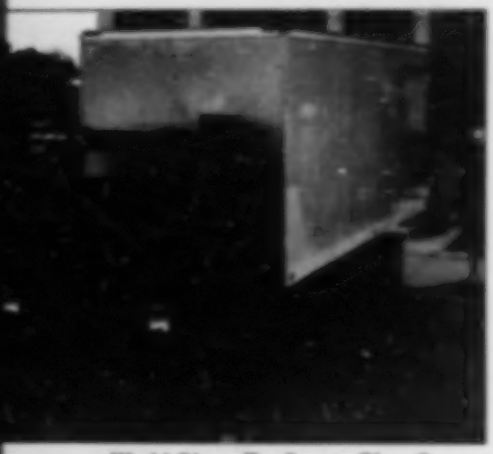
Federal deregulation, via the Motor Carrier Act of 1980 and subsequent court decisions, presents fleet operators with a number of interstate operating options that are complex to deal with, but too advantageous to ignore. Thanks to deregulation, fleets now can be set up by corporations as subsidiary transportation profit centers; they can solicit paid loads from other corporations to fill otherwise empty backhauls, to name just two of the more important options that are now available.

Meanwhile, the tax and operating regulations of individual states keep changing constantly, confronting multi-state fleets with a veritable maze of diverse tax and legal requirements and operating restrictions. Next year, a new set of regulations concerning improved safety and stricter emissions control are expected from several states, adding more to the confusion.

Even the economic recovery has complicated things for private truck fleets. Rising business activity man-

dated the expansion of fleets, while falling inflation revealed many fleet cost inefficiencies that had previously been masked by high inflation.

Sophisticated new technology, along with a proliferation of truck models and



World Class: Ford's new Class 7 all-purpose 'CARGO'

equipment, makes the proper selection of new vehicles perplexing, to say nothing of escalating acquisition costs. In the face of this ever-rising tide of complexity, many private truck fleets are getting more than leased vehicles from the leasing companies.

Basic truck leasing, of course, is still the prime service and one that is in increasing demand, since sound financial management often requires an alternative to the commitment of capital and the drain on corporate credit lines caused by outright purchase. But today, the major leasing companies offer much more than just an alternative means of vehicle acquisition.

Gordon Bingham, Vice President, Marketing for Ryder Systems, describes Ryder's current private truck fleet programs: "We now offer a series of services that start with a 'full dedicated contract carriage' system, where the customer tells us what he wants done, and we handle everything from the routing design, vehicles hiring drivers, the dispatch function—the 'whole ball of wax.'

"If a customer does not want to give up the dispatch function and some of the day-to-day control over the fleet, but yet doesn't want to mess around with drivers, then we give him 'single-source' leasing, which provides both the drivers and the vehicles.

"If he wants the drivers to be his own employees, since they may also act as salespeople to his customers, we can give him 'full service' leasing."

A developing trend in the leasing business is offering individual services on an "a la carte" basis. To resolve with myriad state tax, registration and reporting requirements, some multi-state fleet operators, for instance, are purchasing only relevant administrative services from their lessors. Other fleets are leasing drivers for their company-owned vehicles. Some are taking advantage of the leasing company's expertise in testing, qualifying and training company drivers.

James Costa, Director of Marketing for Rollins Truck Leasing, reports that "Rollins Brokerage Services was established to meet a need that is a direct outgrowth of deregulation. Many private fleet operators want to take advantage of the option to fill empty backhauls with loads from other shippers so we work as a 'brokerage network', between shippers who have products to move and our own customer fleets who have empty miles to fill. We use our computer network to properly match loads and idle equipment. We've found that the extra revenue these hauls generate can cut the cost of doing business with us."

When it comes to the changing needs of corporate truck fleets and the answers provided by the leasing companies, we've probably only seen the beginning of a long term trend thanks to the evolutionary changes caused by federal deregulation.

Deregulation on the state level will only add to the complexities faced by private truck fleets. So we can expect many leasing companies to become, in the words of Peter T. Farm, Director of Transportation Services for the Lend Lease division of National Car Rental, "full-service transportation companies." —T.R.

Peterbilt Principles

Peterbilt trucks—impressively rugged and usually chrome-bedecked from hubcaps on up—occupy a fond spot in the fantasies of most red-blooded American truck drivers. But image and status notwithstanding, they've gained a richly deserved reputation for quality and longevity.

Like other heavy truck manufacturers, Peterbilt Motors Co. has on-going research programs to aid in the quest for greater efficiency and "10 mpg or better" for 80,000 lb Class 8 rigs.

Peterbilt engineers point out that only about 40% of the energy in a gallon of fuel is available as productive mechanical power; the rest is lost in the form of heat. So fuel economy measures are aimed at combating the "power users": Rolling resistance of tires (45%); aerodynamic drag (40%); powertrain losses (15%); and gradeability, which varies widely. Peterbilt's findings, and some surprising observations, follow:

- The easiest way to hold rolling resistance to a minimum is to properly inflate tires. 5% under-inflation increases fuel consumption by 1%.
- Low profile radial tires improve fuel economy, but only if matched with the proper drivetrain.
- Air deflectors on cab-over (COE) trucks can improve fuel economy by 5%-to-7%; while adding cab extenders and trailer nose cones can increase fuel efficiency as much as 13%.
- COE vehicles don't necessarily have more drag than conventionals.
- Direct drive transmissions can be more fuel efficient than overdrive.
- Synthetic lubricants in drives axles improve fuel economy by about 2%; synthetic oil in crankcase adds 1% more.
- A temperature-controlled fan clutch can save 25 horsepower at highway speeds.
- Climbing from 55 to 60 mph cuts fuel efficiency by 12% or more.

As Virgil Pound, Peterbilt's Chief Engineer, advises: "Driver training is a key way to get more miles per gallon, and on-board electronic trip recorders, coupled with driver incentives, are proving effective in some fleets. As far as specing for fuel economy, look at the entire vehicle as a system, rather than adding accessories one at a time". —J.F.C.

Honeywell Hones Fleet

It costs Honeywell $87.50 a year less than the per-car average for all industries to operate each of its 6,000 fleet cars—an annual saving of $520,000.

This is possible because of the development of a four-tactic fleet management strategy to provide each division with the most economical vehicles to meet separate business transportation requirements, according to Richard E. Weber, Corporate Vice President, Sales and Services.

Weber explains, "Overall fleet costs are managed by separately targeting the three individual key events in the life cycle of our fleet: selection of vehicles, operating costs and disposal (resale) of surplus and older units. Although each event is tracked, measured and managed separately for maximum cost improvement, they all share the same data base such as driver name, unit number, division and operating account numbers."

TACTIC #1 Recognizing the importance of the data base and the need to combine information from multiple vendors, the first important tactic was to develop an in-house vehicle information system. As developed, this system consists of two modules:

The *Master File* which maintains records of each vehicle, driver information for each vehicle and information necessary for generating management reports and automated billing and audit.

The *Expense Detail File* which keeps a month-to-month total of costs by expense category for the previous twelve-month period and an inception-to-date total for each vehicle.

- Savings of $80,000 a year on cars and trucks by not purchasing differing fleet reports from vendors. This is in addition to the $520,000 savings cited.
- Uniform fleet operating information to make management decisions.
- An ability to accept magtape billing from vendors, permitting automated audit of charges and timely pass-through accounting to using divisions.

TACTIC #2 Development of management reports which provide information to both operating management and fleet management.

- Division management reports provide a tool for evaluating division costs compared to industry and fleet averages and allow division management to establish internal division transportation programs to control these costs.
- Fleet management reports provide composite information that guides vehicle selection and replacement criteria. *Example:* Honeywell led large fleets in the move to four cylinder cars by two years.
- "Over the last ten years we have improved our fleet performance by an average of 10 miles per gallon," says Weber. That means, each mile per gallon saved has reduced the fleet's fuel expenses by $450,000 a year.
- "In total, our fleet operating costs average $87.50 per car per year under the all-industry fleet average as a result of decisions driven by our fleet management reports. This represents $520,000 a year, $450,000 of which are fuel savings noted above," Weber says.

TACTIC #3 Development of a replacement modeling system to select the optimum replacement point in the cash flow stream of vehicle operating expense. Factors considered are vehicle type, lease payment, cost of capital, resale market, monthly mileage, acquisition costs, operating expense, inflation and tax implications.

- An evaluation of trade-in values and method of disposal led to a new schedule and alternative "auction" method, upping trade-in recovery by 3%-to-5%.
- Improved the company's ability to measure the performance of its vendors and led it to an improved competitive contract position.

TACTIC #4 Develop a tracking system for our alternative transportation program for drivers not qualifying and/or looking for an alternative to the standard company vehicle.

- Management reports allow comparison between these costs and standard fleet costs for future assignments and program updates.
- Provides appropriate insurance tracking mechanisms.

Weber sums up: "The adoption of these computer programs allows us to respond to the constantly-changing marketplace influences and division needs without having to develop new or replacement systems." —J.F.C.

Information, Please.

1985 Automotive Truck Guide Books: Facts, figures and fleet recommendations, available from:
- Avis Car Leasing, PO Box 117, Carle Place, NY 11514.
- Geico Fleet & Management Services, 3 Geico Dr., Eden Prairie, MN 55344
- Hertz Car Leasing, 1633 Broadway, New York, NY 10019
- Peterson, Howell & Heather, PO Box 2174, Baltimore, MD 21203
- McCullagh Leasing, 30803 Little Mack Ave., Roseville, MI 48066
- Leaseway, 3700 Park East Dr., Cleveland, OH 44122
- Wheels, Inc., 6200 N. Western Ave., Chicago, IL 60659

Fleet Management
Fleet Management, a comprehensive work by John E. Dolce, covers all aspects of fleet management and cost control, with emphasis on trucks. 320 pp., $31.95, from McGraw-Hill, 1221 Avenue of the Americas, New York, NY 10020.

Runzheimer Reports from: Publications Division, 555 Skokie Blvd., Northbrook, IL 60062.
- *Runzheimer Reports on Transportation*—Monthly newsletter on car fleet management ($195/yr).
- *Runzheimer on Cars and Living Cost*—Informative and *free* quarterly newsletter on items of interest to managers.
- *Survey and Analysis of Business Car Policies and Costs*—Complete 1985/86 report; available early 1985; ($296).
- Runzheimer Reports on Travel Management—Invaluable in controlling rising travel costs; monthly newsletter, ($245/yr).
- *Special Tax Report* Titled "From Recordkeeping to Tax Reform", including the October 1, 1985 Treasury Department ruling summary. $7.50.

NAFA Fleet Manager's Manual
Everything one needs to know about running a corporate fleet, and more; includes sections on acquisition, expense control, maintenance and safety. $85 per copy, from: National Association of Fleet Administrators, 295 Madison Avenue, New York, NY 10017, (212) 689-3200.

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REAL ESTATE

Real Estate Loan Crunch

If the nation's bankers thought the energy-related loan problems of two years ago were a rough ride, they had better start fastening their seat belts for the real-estate crunch that is about to begin. The six largest bank holding companies in Texas—where the energy loan crunch also began—have reported nonperforming real estate loans ranging from 15% to 35% of their total nonperforming loans as of the end of the second quarter. The nonperforming real estate loans range from $45.8 millions for Houston's Allied Bancshares to $215 million for Dallas' InterFirst Corp. (*see table, below*).

Obviously worried about the situation, the Comptroller of the Currency last month mailed out detailed questionnaires, dealing solely with real-estate exposure, to 25 major banks, concentrating on institutions in such soft real-estate markets as Houston, Dallas, Denver, Seattle and San Diego. The survey asks banks to break out the types of real-estate loans made and requests details on the banks' loan policies and procedures, foreclosure guidelines and delinquency rates. Industry sources say that the Comptroller plans to send teams of examiners to targeted banks after the survey has been completed.

Office Glut Could Get Worse

Chicago has moved into first place as the city with the most vacant office space. In the first half of 1985, the Windy City edged out the previous leader, Dallas, and even long-time vacancy capital Houston, to grab the dubious honor of having 40.5 million square feet of unoccupied office space. Dallas is close behind with 39.2 million sq. ft., while Houston has slipped to third with 38.1 million, as office construction there has ground to a virtual halt.

Rounding out the rest of the Top Ten office vacancy markets are: Los Angeles (34.3 million sq. ft.), Washington, D.C. (27.6 million), San Francisco (25.4 million), Manhattan (24.2 million), Atlanta (17.6 million), Denver (16.3 million) and Boston (16.2 million).

Comments Kathryn S. Gehbauer, a spokesperson for Houston-based The Office Network, Inc., a real-estate research firm: "Because the construction rate is so high—it's the highest it has ever been—there's going to be additional empty space added to the market. The other cities need to follow the lead of Houston and Denver, which have cut construction back considerably." ■

REAL ESTATE LOAN EXPOSURE AT TEXAS BANK HOLDING COMPANIES

Holding Co.	Nonperforming Real Estate Loans (in millions)	Nonperforming Real Estate Loans/ Nonperforming Loans	All Real Estate Loans/Loan Portfolio
Allied Bancshares	$ 45.8	16%	35%
First City Bancorp.	98.8	19	30
InterFirst Corp.	215.0	27	37
MCorp	70.0	15	33
RepublicBank Corp.	96.0	18	35
Texas Commerce Bancshares	213.0	35	31

Source: Second quarter bank reports

COMPANIES

Wall Street Hails Carbide Cutbacks

Union Carbide Corp., beset by laxness, leaks and lawsuits, said that it will close many unprofitable plants, cut its work force (*see page 44*), and take nearly $1 billion in writeoffs this year. Management decided to bite the bullet now instead of spreading the restructuring over several years, as it at first intended. The company, as a result, expects to report a loss for 1985.

Industry analysts applauded the belt-tightening, which they felt Carbide should have begun long before the fatal gas leak at Bhopal, India, and the accidents in West Virginia. They said that management, which also intends to buy back 10 million shares of Carbide common, might have acted now because of the threat of a takeover by Samuel Heyman, chairman of GAF Corp., who owns 9.9% of Carbide's stock and intends to buy more. The company denies that the restructuring has any connection with either Heyman or Bhopal.

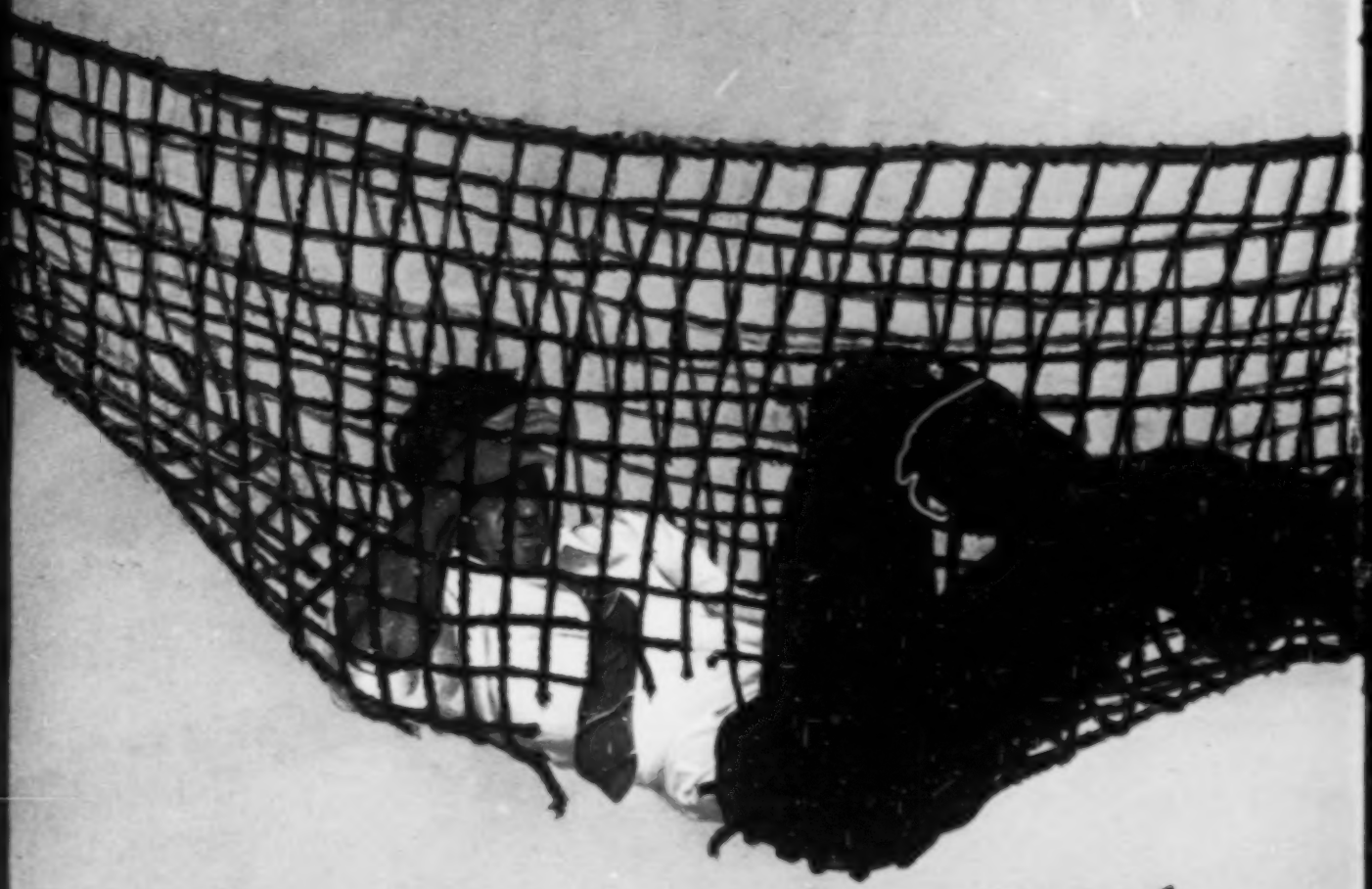
On the day after its announcement, Carbide, the most actively traded issue on the Big Board, rose to 55⅝, up from a low of 33 just after Bhopal.

A.H. Robins Follows Manville

The A.H. Robins Co., facing 5,100 product liability claims stemming from its Dalkon Shield interuterine contraceptive, has filed for protection from its creditors under Chapter 11 of the Federal Bankruptcy Code. This recalls the "preemptive" Chapter 11 filing by the Manville Corp. in 1982, when it was faced with billions of dollars of claims from workers made sick by asbestos.

Robins sold 2.8 million of the devices domestically between 1971 and 1974. They have been linked to pelvic infections, sterility and spontaneous abortions, four of which led to the mother's death. Robins and its insurer, Aetna Life & Casualty Co., have settled more than 9,200 claims for $378 million; legal fees and other costs consumed an additional $107 million.

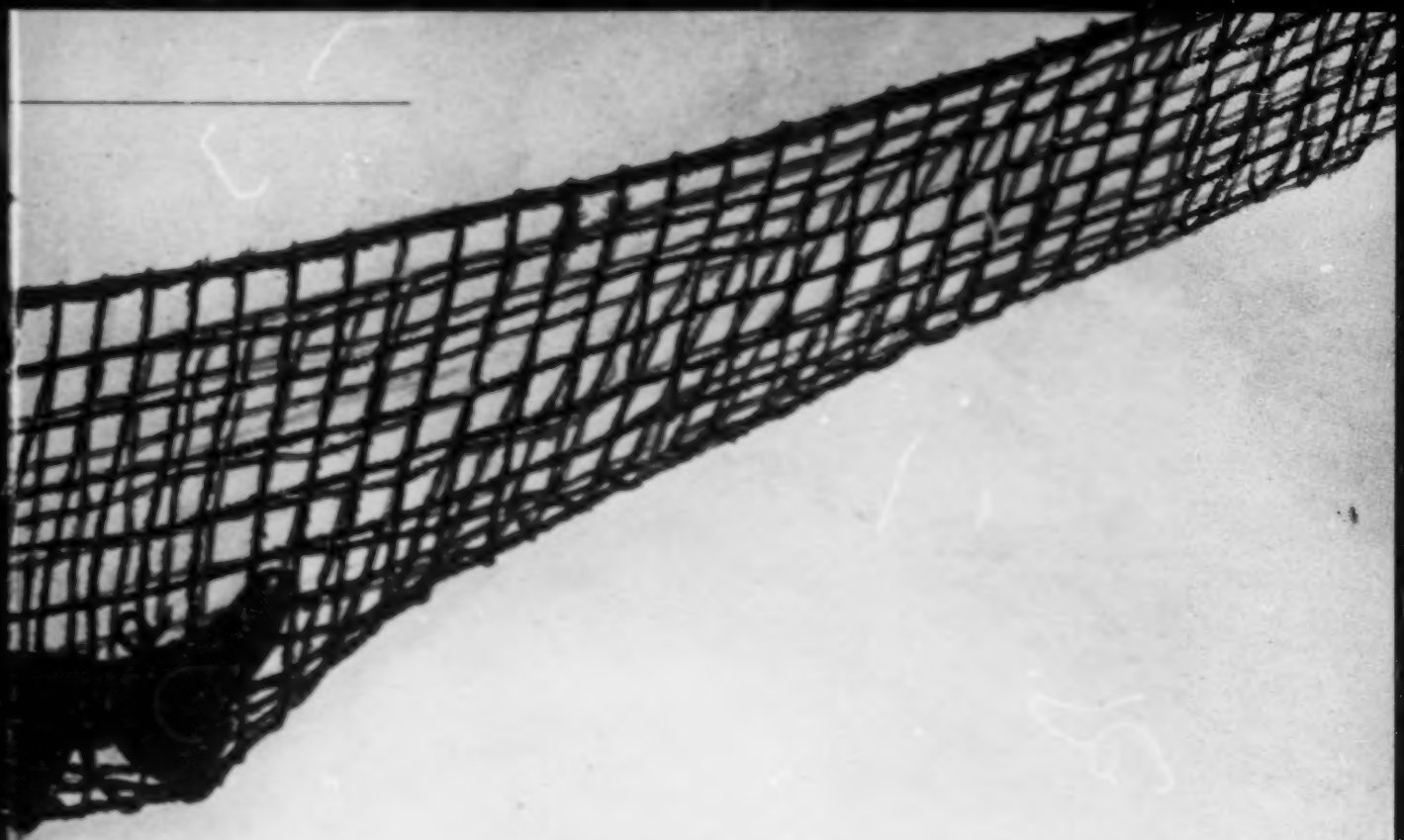
This April, Robins set aside $615 million to settle future claims, but the total li-



Companies Cut Back On Benefits: What It's Costing Employees

A Dun's survey reveals: Higher medical deductibles and premiums and reduced pension guarantees.

by Daniel Forbes



Until a few years ago, employee benefits such as health care and even pensions were commonly referred to as "fringes," and, historically speaking, the word was accurate. When these benefits were originally introduced in the immediate postwar period, they were expected to protect employees from catastrophic losses only. But over the years, as American industry prospered, company insurance policies were broadened to pay all medical bills, and guaranteed pensions that rose with salaries became the rule. The fringes grew into an all-purpose safety net—they were fringes no longer.

But recently, corporate America discovered it could not afford this generous protection. Starting about five years ago and accelerating dramatically since 1982—spurred by rampant inflation in health care costs and the pressure on corporate earnings brought on by the worst recession in forty-odd years—companies began to shift some of the burden of the benefits bill to employees. Today, there are few companies that are not at least investigating some means of paring their part of these expenditures.

Indeed, these are precisely the findings of an extensive survey of health care and pension benefits cutbacks at over 1,100 of the nation's largest companies, conducted by Dun's Business Month. More than 1.5 million employees were represented by the 150 companies that responded to the questionaire sent to a list supplied by William M. Mercer-Meidinger, Inc., and in more than 80% of the companies employees are now picking up a greater part of the tab for benefits or have seen the guarantee of security reduced. This major trend is corroborated by other recent surveys by consultants the Wyatt Co. and Towers, Perrin, Forster & Crosby. The Equitable Life Assurance Society queried 1,250 companies and found that in the past three years a majority increased employees' responsibilities for medical costs.

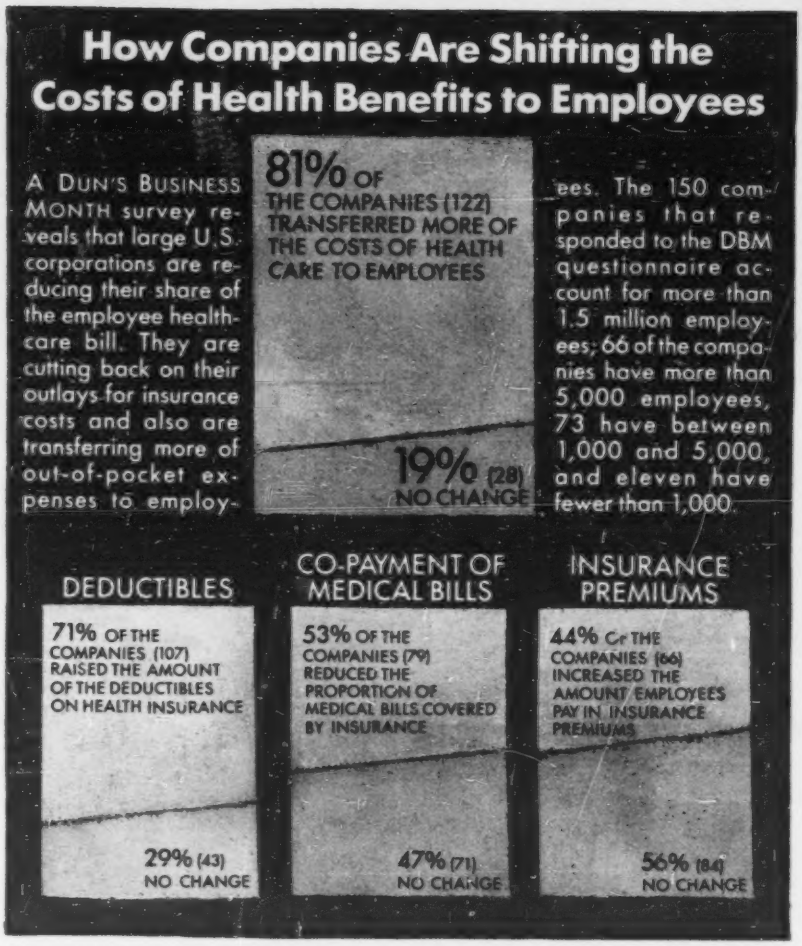
The DBM survey reveals that medical benefits are most dramatically affected, with 81% of respondents indicating that they upped the amount of employee contributions to health care or insurance. Many companies introduced programs that raised the share of medical bills employees pay unless they use designated doctors or follow set procedures. Pension benefit guarantees also diminished, but less dramatically.

The cutbacks are an unmistakeable expression of the corporate pain of paying the bill for the rising tide of medical costs. Health insurance costs sky-

rocketed as the medical care component of the Consumer Price Index soared about 11% annually from 1979 to 1983. And individual companies fared far worse: Houghton Mifflin, Inc. reports that benefits costs rose 20% in 1983, 27% in 1984; Hobart Corp. experienced 25% annual increases during the early 1980s; Nebraska's Valmont Industries' medical costs rose from $895,000 in 1979 to $1,822,000 in 1981—it made major changes in 1982.

By and large, companies absorbed the higher costs for three years or more before they acted. But when they did, the timing was hardly coincidental. Plant closings, mergers, plummeting sales and an unemployment rate topping 10% created a climate for benefit cutbacks.

Carson E. Beadle, managing director of pension and benefits consultants Mercer-Meidinger, expresses no doubt that the cutbacks and high unemployment were linked. "The economic setback forced people to look at their costs," he says. Oil refiner Tosco Corp.'s benefits manager Joseph F. Osborne says simply, "It's better to do it when employees know the company is having a hard time."


How Companies Are Shifting the Costs of Health Benefits to Employees
A DUN'S BUSINESS MONTH survey reveals that large U.S. corporations are reducing their share of the employee health-care bill. They are cutting back on their outlays for insurance costs and also are transferring more of out-of-pocket expenses to employees. The 150 companies that responded to the DBM questionnaire account for more than 1.5 million employees; 66 of the companies have more than 5,000 employees, 73 have between 1,000 and 5,000, and eleven have fewer than 1,000.
81% OF THE COMPANIES (122) TRANSFERRED MORE OF THE COSTS OF HEALTH CARE TO EMPLOYEES
19% (28) NO CHANGE
DEDUCTIBLES
71% OF THE COMPANIES (107) RAISED THE AMOUNT OF THE DEDUCTIBLES ON HEALTH INSURANCE
29% (43) NO CHANGE
CO-PAYMENT OF MEDICAL BILLS
53% OF THE COMPANIES (79) REDUCED THE PROPORTION OF MEDICAL BILLS COVERED BY INSURANCE
47% (71) NO CHANGE
INSURANCE PREMIUMS
44% OF THE COMPANIES (66) INCREASED THE AMOUNT EMPLOYEES PAY IN INSURANCE PREMIUMS
56% (84) NO CHANGE

Hard times or no, organized labor more successfully resisted cutbacks than white-collar workers. Union bargaining practices made it difficult for companies to change benefit provisions that are set nationally or where multi-employer plans pay the bills. In such cases, companies put the burden on their salaried employees. As one natural resources company executive put it: "It's always the salaried people being cut back. You can deal more straightforwardly with them."

At least 22 companies that responded to the DBM survey noted they had raised health care costs for salaried employees but not for unionized workers. Charles S. Diener, assistant treasurer of Delaware's RLC Corp., reports that the trucking company raised the amount of health insurance contributions of its salaried employees, but not for its union workers, who were covered by the Teamsters' multi-employer health program.

At Tosco Corp., 450 salaried employees got hit with a variety of new health care costs this year. The company instituted co-payments on medical care, raised employee contributions to health insurance premiums $10 a month and inaugurated deductibles on health insurance ranging from $125 to $400 annually, depending on salary. At the same time, the company terminated its guaranteed benefit pension plan for salaried employees and substituted a defined contribution plan. The benefits of Tosco's 600 union employees, which are negotiated, underwent no change, reports Osborne.

In their efforts to rein in runaway health costs, employers have changed the terms of health insurance policies and raised the employees' out-of-pocket outlays. In most cases (71% of the respondents), companies either put in deductibles on health insurance policies or raised the current deductible. One-third of the companies responding now charge single employees deductibles of $100-to-$149, another third charge $150-to-$199, and a like number charge $200-to-$249. For dependent coverage, the results vary more widely. The greatest number have annual deductibles of $200-to-$700.

The second most popular cost shifting technique is co-insurance, or co-payments, by employees of a portion of medical expenses, until a limit or "stop-loss" has been reached. Fifty three percent of the respondents instituted co-payment policies. And four out of five of them have an 80%-to-20% co-payment ratio—the employee pays 20% of the bill up to the limit.

The most popular stop-loss limits are $1,000 for single employees and $2,000 for dependent coverage, which in most companies is double the single employee stop-loss. A significant number of companies, however, have lim-

its of $500 for single employees and $1,000 for families.

Finally, the last of the pure cost-shifting techniques, 44% of our respondents have increased their employees' share of group health insurance premiums. Many companies raised coverage for dependents to about $25 a month.

Companies also shifted health care responsibility to employees in nonfinancial ways. Half the companies put in an array of new health care programs that do not increase employee outlays, but limit their choices. Called "managed care" policies, these programs encourage employees to avoid unnecessary spending. They include: mandatory second opinions before elective surgery, pre-admission testing, incentives for outpatient surgery and testing, disincentives for noncrucial emergency room use and incentives for patronizing Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs).

These programs usually provide benefit improvements (such as free medical checkups), but they also limit the employees' power to choose their doctors and penalize financially those who do not comply. If an employee refuses to get a second opinion, say, or has a proscribed procedure done on an in-patient basis, some plans pay only 50% of the bill even though they will pay 100% of the cost of a second opinion or a procedure done on an out-patient basis.

Most employees have adjusted to the changes. As Carson Beadle says, "You get endorsement because of the hunger for more medical information; having more guidance is viewed as positive." But people are sensitive about medical care, and any glitches are magnified. An employee who quite rightly goes to an emergency room with chest pains is delighted to find out it's only gas, but becomes furious when this is not deemed an emergency, and he must pay 50% of the cost rather than 20%. This can take several weeks to straighten out.

Some companies have discovered that HMOs are not the panaceas they were trumpeted to be. Richard C. Smith of Hobart Corp. says an HMO "sounds attractive, but it won't fit most needs." Most employees, he says, want to maintain relationships with family doctors and HMOs will not cover hospitalization outside their service area—a drawback for college students and vacationers.

Moreover, the savings are not what they are cracked up to be. Hobart's Smith says, "HMOs are getting expensive, and the employee has to make up the difference between our average cost per month and the cost of the HMO. This can be as much as $60 a month, and the employee has to decide if the HMO's first dollar coverage is worth this expense. It's a crap shoot on whether you're going to get sick or not."

Still, companies are delighted with the savings from managed care. B.F. Goodrich saved $1.5 million the year after instituting managed care; LTV Corp. estimates that employee hospital days dropped about 40% after precertification was required. Many companies have passed some of the savings along in the form of wellness programs, more dental coverage, or by raising the company match to a thrift program; 40% of the respondents offered sweeteners with their cutbacks.

In cutting back on corporate benefits, reductions in pension guarantees are not nearly as common, the DBM survey found. For many companies, excellent investment results, smaller wage increases and reduced employee rolls have significantly slashed pension costs in recent years.

Nonetheless, seventeen respondents terminated defined benefit plans, in which an employee is promised a specified monthly pension for every year of service—the amount being linked usually to his average salary during his last five years of employment. They put in instead defined contribution plans in which companies contribute a set percentage of an employee's salary each year into an individual account and the employee directs how the money is invested; upon retirement, the proceeds are used to buy an annuity. A handful of companies substituted defined contribution plans for part of the defined benefit plan. Some companies substituted 401(k) savings plans (in which the employee contributes pre-tax dollars, usually, along with a company match) instead of pension plans.

In a defined contribution plan or a 401(k), an employee could end up with a more generous pension than in a defined benefit plan, but the size will fluctuate with investment results. They are more likely to produce a lower pension than a defined benefit plan. Because contributions are based on an employee's current salary, they ignore future raises and inflation, which are taken into account in final five-year average defined benefit plans.

As a result, employees are less secure and planning retirement needs is less predictable. For example, if the employee elects to invest his individual account in an equity fund, the pension could decline if he unfortunately retires in the midst of a market downturn. Also, he cannot predict the value of his annuity, which depends on the interest rate available the year he retires.

Because of the uncertain outcome, organized labor has largely opposed defined contribution plans. Larry Smedley, associate director of the AFL-CIO's Department of Occupational Safety, Health and Social Security, prefers to look on defined contribution plans as a supplement, not a substitute, for defined benefit plans.

Given the amounts of money involved for employers, as well as the natural queasiness employees feel about their health and old age security, who should pay for benefits is a tough issue. The Reagan Administration favors private sector responsibility, but the ability of American industry to afford the benefits that employees have gotten used to depends on control of medical care inflation and profitable operations. Without a return to strong earnings, the cutbacks are likely to continue, and American employees will have to learn to live with less of a safety net.—WITH BARBARA BERKMAN

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INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(8/30/85) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$22.26/share	$ 9,993	$11,594
per cent change		−.67%	+15.9%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE		$10,123	$11,634
ACCUMULATED INCOME	$108.12	$ 92	$ 1,264
TOTAL		$10,215	$12,898
per cent change		+2.2%	+28.9%
Money Market Fund	7.08%	$10,060	$10,861
per cent change		+.6%	+8.6%
Gold (Krugerrands)	$333.50/oz.	$10,271	$ 9,570
per cent change		+2.7%	−4.3%
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	$93,700	$95,700	$82,400
per cent change		−2.1%	+12%
New House	$104,400	$119,200	$94,300
per cent change		−14.2%	+9.7%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Deak-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

Imre can profitably sell $3 million-to-$5 million of the devices next year and grow substantially after that. He believes the stock could more than double to 10 per share from its recent 4½.

Circon Corp. is a leading maker of miniaturized TV cameras used in arthroscopic operations on damaged knees, the bane of professional and amateur athletes. Its sales and earnings suffered a setback last year when hospital budgets were cut, but they have since rebounded. McCamant expects earnings to climb 35% to 25 cents a share this year and 40 cents in 1986. He says that Circon now has its own sales force to penetrate the growing sports medicine business more deeply. "If they succeed in this, their earnings could be better than I'm projecting," he says.

The growing threat of AIDS has renewed McCamant's faith in Newport Pharmaceuticals, which recently sought FDA approval to market its drug, isoprinosine (IPO), to treat early- stage AIDS. NPC claims that it acts to restore a failing human immune system, a key factor in the disease's progression. McCamant estimates that some 200,000-to-1 million persons are infected with the disease in an early stage form, constituting a $100 million market. Newport's earnings are minimal so far, 5 cents per share in fiscal 1985 (ended April 30), but McCamant expects them to double this year and "then take off after that." He also figures the stock could soar to 20 from a recent 12.

McCamant also likes Sunrise Inc., which makes such mundane items as canes, walkers and hospital beds as well as more sophisticated equipment like motorized wheelchairs and specialized mattresses for burn victims. Sunrise is staying well ahead of the competition by acquiring specialty producers, exploiting the growing demand for such supplies, says McCamant. He expects a 35% gain in earnings, to 75 cents per share, in fiscal 1986 (ending June 30) and a similar rise to $1 in 1987.

—THOMAS J. MURRAY